

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2014

Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 12

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 12, issued on February 25, 2015. The response is available now, and thus filed a day before the deadline. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 12**

1. Please explain why the cost coverage for Stamp Fulfillment Services (SFS) has decreased from 88.8 percent in FY 2013 to 77.5 percent in FY 2014.

**RESPONSE:**

Although the FY 2013 SFS cost coverage on page 58 of the FY13 ACD (March 27, 2014) is displayed as **88.8** percent, that figure appears to be the result of a typographical error. Both page 37 of the Postal Service's FY13 ACR (Dec. 27 2013) and the pertinent Commission spreadsheet supporting the ACD (PRC-ACR2013-LR5, "Unit Rev & Cost & CC" tab, cell G6) show the FY 2013 cost coverage as **80.8** percent. (The accuracy of the FY 2013 revenue used in both of those sources was confirmed by the Postal Service's March 14, 2014 response to ChIR 14, Q.1 in the FY13 ACD proceeding.) The relevant decline in cost coverage between FY 2013 and FY 2014 thus appears to be approximately three percentage points, and therefore much less than implied by the question.

Going from FY 2013 to FY 2014, the total number of transactions dropped, as did the average cost per transaction. There was, however, a larger drop in average revenue per transaction, as fewer customers placed orders for purchases of greater than \$50. As a result of average revenue declining proportionately a bit more than average cost, the cost coverage decreased to 77.5 percent for FY 2014.

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2. What are the Postal Service's plans for improving the cost coverage of SFS in the future?

**RESPONSE:**

There is a possibility that the exigent surcharge, which resulted in a price increase of \$0.10, caused customers to choose to make purchases for smaller amounts to avoid the higher SFS fees associated with orders greater than \$50. The Postal Service will keep an eye on how volume reacts to a lack of price change in the current Market Dominant price change proposal in Docket No. R2015-4 and, at the time of the next price change, will use the knowledge gained during the intervening period to determine an appropriate action to improve the cost coverage. However, as noted in the ACR, at 37, the Postal Service continues to agree with the Commission's comments in the ACD for FY 2012, at 142:

The costs and revenues associated with the SFS product do not entirely capture the value that the Services Center adds to the Postal Service, and to other Postal Service products. Although SFS does not cover its attributable costs, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. Thus, it promotes the objectives of reducing costs and increasing efficiency. See 39 U.S.C. 3622(b)(1) and (c)(12).